

SBA's REGION V OFFICE TAKE FIVE

Midwest Entrepreneurs' Small Business Resource

SBA Region V Office Services the States of Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin

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MESSAGE FROM THE REGIONAL ADMINISTRATOR

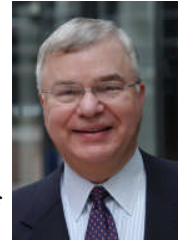
Welcome to another edition of "Take Five"!

On behalf of Region V and our District Offices, I would like to extend a welcome to our newest addition to the SBA family Administrator Steven C. Preston. Mr. Preston was sworn in on Monday, July 10, 2006 as the 22nd Administrator of the SBA since the agency's establishment in 1953, succeeding Hector V. Barreto, who took office on July 25, 2001.

Mr. Preston has strong ties to Region V as a graduate of the Heartland's prestigious universities. He graduated with the Highest Distinction from Northwestern University with a political science degree, and received an MBA from the University of Chicago Graduate School of Business. Mr. Preston currently serves as vice chairman of the Board of Visitors for the Weinberg College of Arts and Sciences at Northwestern University, and has served on numerous boards of philanthropic and other organizations.

Mr. Preston recently served as Executive Vice President of Illinois-based The ServiceMaster Company—a major franchising organization with thousands of small businesses in its network. Preston also had served as Chief Financial Officer. He previously had been Senior Vice President and Treasurer of First Data Corporation, and an investment banker at Lehman Brothers.

We look forward to working with Mr. Preston and sharing with him the progress we are making in empowering entrepreneurs throughout the Midwest and serving as the nation's leading economic development agency.



Patrick E. Rea
 Region V Administrator

OFFICE OF ADVOCACY REPORT SHOWS HOME-BASED SOLE PROPRIETORS GENERATE \$102 BILLION IN ANNUAL REVENUE

America's home-based sole proprietors generate \$102 billion in annual revenue, according to a study released on May 31, 2006, by the Office of Advocacy. The study compares revenues, expenses, income, and industry distribution for sole proprietors who are based in the home versus non home-based.

As Regional Advocate, I had

the opportunity to present this study at the annual meeting of the American Association of Microbusinesses in Bloomington, Minnesota. The report entitled, *The Impact of Location on Net Income: A Comparison of Homebased and Non-Homebased Sole Proprietors*, was written by Joanne H. Pratt with funding from the Office of Advocacy.



Ray Marchiori
 Region V Advocate

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SBA'S WINDOW TO WALL STREET FOR SMALL BUSINESS

By Richard Temkin, SBA Michigan District Director

SBA's "Window to Wall Street" for small business is a great deal. Small business owners who need to finance fixed assets to grow or expand their businesses should consider the U.S. Small Business Administration's Certified Development Company (CDC) 504 Loan Program.

Often a growing business needs funds to purchase a building or new equipment, but cannot afford the down payment it would need for traditional financing. A 504 loan provides access to the same type of long-term, fixed-rate financing enjoyed by larger firms. Interest rates are equivalent to favorable bond market rates. Soft costs like legal and architectural fees, environmental studies, appraisals, and interest and fees on the construction and/or interim bank loan can also be rolled into the loan. While loans for working capital, inventory, debt consolidation or refinancing are not eligible, they can be financed through SBA's 7(a) Program.

A typical 504 project is financed 50/40/10. Fifty percent of the project costs are provided through a senior private-sector lender or bank. This senior loan is usually for at least a 10-year term at a fixed or variable rate, depending on the relationship with the lender. Forty percent of the project costs would be financed by a fixed-rate debenture secured with a junior lien from a CDC. The debenture is backed by a 100 percent SBA guaranty. The final piece of the pie is a contribution of 10 percent equity from the small business. Because of the lower down payment required and the ability to finance the soft costs, the small business will realize up front cash savings of approximately \$100,000 on a \$1 million project.

The maximum SBA debenture under this program is \$1.5 million (\$4 million for manufacturing loans), and maturities of 10 or 20 years are available. This means that with a 504 loan the total project cost could be over \$10 million.

Consider the benefits of the 504 Loan Program versus conventional mortgage financing:

- **Low down payment.** In most cases, the company is required to inject just 10 percent, which allows the business to preserve cash for working capital. Most banks will lend only 60-70 percent of the appraised value of the real estate leaving the company to sink in 30-40 percent plus the cost of renovations and soft costs.
- **Fixed rate on the SBA 504 portion.** Small businesses don't have to worry about the prime lending rate going up and can calculate the exact amount of their mortgage payments for 20 years.
- **Long term.** 504 loans are for 10 or 20 years. Because the CDC is in second lien position, the bank or other lender doing the 50 percent first lien loan is willing to lend at a longer term. Longer terms reduce monthly payments.
- **Low interest rate.** Even with the fees and closing costs included in the rate, the 504 program offers a low rate for a subordinate mortgage loan, particularly for small businesses. The blended rate between the bank portion and the SBA's 504 portion makes the project very affordable. Recent 504 interest rates were 7.25% on 20 year and 7.45% on 10 year debentures.

For more information, please contact a CDC in your state. These organizations are specialists in packaging 504 loans and will manage the entire process to make sure it goes smoothly. Simply go to www.sba.gov; click on your state; financing; and then certified development companies.

(Continued from page 1)

According to Chief Counsel for Advocacy Thomas M. Sullivan, "Sole proprietorships are a vital part of our economy. Many are home-based micro businesses; collectively they generate a significant amount of economic activity. For the average sole proprietor, their business provides benefits of entrepreneurship that go beyond just income and revenue."

The report examines federal income tax data from sole proprietorship returns for the year 2002 and compares home-based and non home-based sole proprietorships. For example, it finds that the average home-based sole proprietor earned \$22,569 in net income while its non home-based counterpart earned \$38,243. Due to lower expenses, particularly in rent and labor costs, the average home-based sole proprietor consistently gained a higher return on gross revenues at 36 percent, versus 21 percent for the non home-based.

In addition, the report finds that the percent of home-based sole proprietorships was greatest in the Administrative, Support, Waste Management, Information, and Construction sectors. For the non home-based, the percentage was greatest in the Accommodation and Food Services; and the Finance and Insurance sectors.

For more information and a complete copy of this report, visit the Office of Advocacy website at www.sba.gov/advo. If you would like to receive a hard copy of the report, please contact me at (312) 353-8614 or Raymond.Marchiori@sba.gov.

MICHIGAN CELEBRATES SMALL BUSINESS

Michigan Celebrates Small Business is the state's premier awards ceremony for entrepreneurs and supporters of small business. The Michigan Economic Development Corporation, Michigan Small Business & Technology Development Center, Small Business Association of Michigan, and the SBA have joined forces to recognize and celebrate Michigan's outstanding entrepreneurs.

Governor Jennifer Granholm was the keynote speaker for the April 19th event which was held in East Lansing. The presentation of SBA's annual awards highlighted this event. Dante Villarreal was the Midwest Regional award winner in his category.

Also announced during the event was the Edward Lowe Foundation's "*50 Companies to Watch*" to honor and recognize Michigan's second-stage companies.



U.S. Small Business Administration Michigan District Office 2006 Small Business Award Winners

Small Business Person of the Year
Keith R. Malmstadt
Great Lake Woods, Inc., Holland

**Michigan & Midwest Minority
Small Business Champion of the Year**
Dante O. Villarreal
Small Business & Technology Development Center
Grand Rapids

Women in Business Champion of the Year
Joan M. Schroeder
National City Bank, Milford

Financial Services Champion of the Year
Eric B. Seifert
Community Shores Bank, Muskegon

Small Business Journalist of the Year
Sheena Harrison
Crain's Detroit Business, Detroit

Michigan Small Business Counselor of the Year
Pat Salo
Small Business & Technology Development Center, Troy

THE PRESIDENT'S FAITH-BASED & COMMUNITY INITIATIVE IN ACTION IN CLEVELAND

The East Cleveland-SBA Small Business Growth & Expansion Initiative was successfully rolled out at a press conference that took place on Thursday June 1st in the city of East Cleveland, Ohio. The East Cleveland-SBA Small Business Initiative is a joint partnership of the Urban League of Greater Cleveland, the City of East Cleveland, the Gund Foundation, Cuyahoga County, the Hebrew Free Loan Association, Case Western Reserve University (CWRU's Weatherhead School of Management), local area banks and the U.S. Small Business Administration (SBA). The goal of the Initiative is to encourage economic development, job creation and wealth generation in the city of East Cleveland.

The Initiative couples the SBA's loan guaranty and training and counseling programs and a supplemental equity pool supplied by the city of East Cleveland, Cuyahoga County, and the Gund Foundation. The entrepreneur must have at least 10% equity for their transaction and qualify for an SBA guaranteed loan. The supplemental equity pool provides an additional 15% equity (up to \$20,000) into the entrepreneur's project. This 15% supplemental equity takes the form of a performance grant (a subordinate loan that is forgiven over a three year period as long as the entrepreneur remains in business).

Finally, the Hebrew Free Loan Association provides the entrepreneur with an interest free loan up to \$5,000 to fund the final part of the project.



Director of SBA's Center for Faith-Based & Community Initiatives Joseph Shattan at the podium, flanked by SBA Cleveland District Director Gil Goldberg on the left and Congresswoman Stephanie Tubbs Jones (OH-11) on the right.

In order to participate in the Initiative, entrepreneurs must successfully complete a business plan through the Multicultural Small Business Development Center located at the Urban League of Greater Cleveland. The business plan is then to be implemented in conjunction with a mentoring/coaching arrangement with graduate students of CWRU's Weatherhead School.

The Initiative is designed to produce highly qualified entrepreneurs that can have a positive impact on the economy of East Cleveland.

"This partnership creates a unique and exciting opportunity for East Cleveland entrepreneurs to start and grow their businesses in this great city. The Initiative represents pure economic development at its finest by combining unique public/private incentives such as forgivable loans with traditional SBA financing. It is our hope that the Initiative will be a showcase of economic development that other cities will emulate," said Gil Goldberg, District Director of SBA's Cleveland District Office.

Joseph Shattan, Director of SBA's Center for Faith-Based & Community Initiatives in Washington, participated in the press conference.

SBA REGION V REACHES RURAL AMERICA THROUGH RADIO

By Carol Wilkerson, SBA Region V Communications Director

What is the most effective way to reach your rural audience? Consider SBA Region V's approach and tap into the rural radio market. Region V has expanded outreach to their rural communities with a **Rural Radio Initiative**.

The **Region V Rural Radio Initiative** is a radio PSA campaign designed to better inform members of the Region V rural community about the wide range of financial products and programs that SBA can offer to the rural businesses. The radio campaign is intended to benefit members of the rural community in the states of Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin.

"Within my six state region, there are 325 counties of a total of 535 counties that are rural. To date, over 200 radio stations in Region V have committed to airing the 60 second PSAs and to help improve the future of rural America," says Patrick Rea, SBA Region V Administrator. "**The Rural Economic Development Series** allows radio stations to better inform members of the rural community about the economic development opportunities for small businesses in the Midwest."

Each PSA is customized by state providing listeners with local success stories as well as contact information for the local SBA district office.

Mike Eiland, Community Service Director for Clear Channel Columbus in Columbus, Ohio finds the PSAs to be a perfect fit at his radio stations. "The rural radio campaign is awesome, considering the reach of our radio stations. We have a regionalized group, with many stations outside of the Columbus metropolitan area located in

rural communities," says Eiland. "We supply those stations with programming and the SBA campaigns are right on target with the stations' desired content and listeners are certainly taking it all in. We find out who's listening when they call to ask questions about what they heard."

Region V plans to produce a total of 12 PSAs for the calendar year with a monthly theme. So far, themes have included "**SBA's 504 Program**", "**Women in Business**", "**SBA Counseling and Training Services**" and "**SBA Office of Advocacy Assists Small Businesses**" which features the Region V Advocate Ray Marchiori.

Many of the participating radio stations have also discovered that the PSAs have been very informative for their listening audience. "We are very pleased and honored to participate in the SBA Region V Rural Radio PSA campaign. We have received many positive comments from our listeners as well as supporters across Central and Southern Lower Michigan," says Dr. James McCluskey, Founder & President of Great Lakes Community Broadcasting Network—a network of 22 FM noncommercial Community Radio Stations throughout Michigan.

Region V plans to execute the project in multiple phases including integrating the district offices into the PSA campaign and hosting interactive discussions through **Ready Talk** teleconferencing with area radio station PSA and news directors, SBA and area state directors of agriculture. The teleconference will feature experts from a variety of small business specialty areas to answer questions from radio listeners.

EMPLOYEE SPOTLIGHT: REGION V SUMMER INTERNS

Welcome to "Take Five" Employee Spotlight. In this column we feature our 2006 Region V Summer Interns!

Joanna Garcia (*pictured left*)

Joanna Garcia's internship at the Region V Office will involve analyzing the SBA's landscape for a future workforce. Joanna is thoroughly enjoying her SBA internship. "The staff here is what makes this a worthwhile internship especially when I ask for assistance everyone is willing to help," says Joanna. "My project as well has been interesting to work on because through each step I find myself attempting to seek out more information. Overall, my stay as an intern for the SBA has been an amazing experience that I will not forget." Joanna is a junior at DePaul University in Chicago majoring in finance and accounting.

Chris Zaczyk (*pictured center*)

Chris Zaczyk is working with the Region V Office for a second year in a row refining and adding to the Region V Rural Radio Initiative. This year, Chris will follow up with the Initiative's 200 radio stations and provide them with a questionnaire to measure the impact of the PSAs. Initially, Chris was instrumental in locating and contacting these rural radio stations all of which are now airing the PSAs. He recruited 100 new radio stations that will air the PSAs. Chris is enthusiastic about his SBA internship. "My experiences here at the SBA have been great. I work with wonderful people and the hands-on learning experience is unbeatable," says Chris. "My experience here at SBA is one I will never forget." This fall, Chris plans to begin his freshman year at St. Norberts in Wisconsin.

Alexander zu Renventlow (*pictured right*)

Alexander zu Renventlow—our international intern from Germany—will be shadowing the Region V Administrator in addition to observing ranching and farming operations throughout the Midwest. He enjoys hunting, hockey, skiing and has academic interest in agriculture, marketing and advertising. "I am truly enjoying my visit to the United States and Region V Offices," says Alexander. "I'm certain that this internship opportunity will prove to be an incredible learning experience for me."



GREAT OPPORTUNITIES FOR MINORITY-OWNED FIRMS: ILLINOIS FIRMS DESIGN AND BUILD FACILITY AT NAVAL STATION GREAT LAKES

By Jan Kaiser Deputy for Small Business, NAVFAC MIDWEST

Ground was broken for the Recruit Training Command's Atlantic Fleet Drill Hall at Naval Station Great Lakes in a ceremony June 28. The \$12 million Drill Hall was awarded to Veteran/Pacific Joint venture under a competitive 8(a) set-aside. The Veteran/Pacific Joint Venture has Wight Architects, Inc. on their team to provide the building design. Participating in the event were, (*shown in photo on right*) from left, William Massie, supervisory contracting officer, Robert Conner, SBA; Alex Polanco, vice president Veteran/Pacific Joint venture; Capt. Rame Hemstreet, commanding officer, Naval Facilities Engineering Command Midwest; Rear Adm. Gary R. Jones, commander, Naval Service Training Command/Navy Region Midwest; Capt. Michael Moran, commanding officer, Recruit Training Command; Capt. Annie Andrews, executive officer, Recruit Training Command; Judith A. Roussel, Illinois District Director, SBA; Cmdr. Kevin Kreide, public works officer, Public Works Department Great Lakes, Naval Facilities Engineering Command Midwest; and Kevin Havens, director of design, Wight Architects.

The Drill Hall is an integral part of the training of U.S. Navy recruits at the Navy's only Boot Camp. The solicitation was issued as a design/build procurement. The work consists of design and construction of a new multipurpose drill hall to train recruits. This approximately 57,600 square-foot, one story concrete, masonry, steel framed structure will complement the existing architecture and function of the



A rendering of the design by Wight Architects.



SMALL BUSINESS NETWORKING



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surrounding buildings matching the Camp John Paul Jones complex and the Base Exterior Architectural Plan. The design will incorporate the latest in energy efficiency, sustainability and environmental practices, including use of recycled building materials.

An estimated 20,000-25,000 recruits will utilize the facility annually. The completion date is in August 2007.

UPCOMING EVENTS

AUGUST 2006

August 9: *"The 2nd Annual Business Women's Conference in conjunction with Oakland County Planning & Economic Development"* at the Royal Park Hotel in Rochester, Michigan. Event guest speaker Jean Chatzky, editor-at-large for **"Money Magazine"**. Hosted by Key Bank. For more information contact Lillian Fisher, Key4Women Relationship Manager at [Lillian M. Fisher@KeyBank.com](mailto:Lillian_M_Fisher@KeyBank.com).

August 15: *"National Women's Contracting Summit"* in Washington, D.C. Learn how to access federal contracting markets, access to global supply chain opportunities and MORE! For additional information, visit www.uswcc.org or contact the U.S. Women's Chamber of Commerce at 1-888-41-USWCC.

August 17 (and November 16) from 8:45 AM to 12:00 PM: *"Seeking Small Business Loans Workshop"* in Pontiac, Michigan. Learn what a banker looks for in a loan applications, the "5C's of Credit", SBA's Loan Programs, the essential financial statements and MORE! The fee is \$20 per person and includes program materials and refreshments. Pre-registration is required. For additional information, contact Oakland County at (248) 858-0783.

OCTOBER 2006

October 16-20: *"The 4th Annual Women's Economic Development Outreach (WEDO) Tour"*. The event occurs on consecutive days in Michigan in the cities of Troy, Lansing, Grand Rapids, Manistee, and Midland. The half day session is targeted to existing business owners and includes a series of speakers on topics ranging from marketing to finance to making good companies great companies. Julie Weeks, CEO of Womenable, Inc., will keynote all five events. Weeks was formerly with the National Women's Business Council and the Center for Women's Business Research in Washington, D.C. The cost is \$25, with \$10 of each ticket going to the Susan B. Komen Breast Cancer Foundation. For more information, visit <http://www.sba.gov/calendar> and click on the state of Michigan.

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